

APPROVED BY THE COUNCIL ON 9/12/07

ECONOMIC DEVELOPMENT ADVISORY COUNCIL MEETING

MAY 10, 2006

301 SOUTH PARK - ROOM 228

HELENA, MT

COUNCIL MEMBERS PRESENT

Senator Jeff Mangan
Senator Jerry Black
Representative Dan Villa
Jim Smitham
Steve Holland
Elaina Zempel

Evan Barrett, Chair
Tony Preite
Jim Atchison
Elizabeth Marchi
Sheila Hogan

COUNCIL MEMBERS ABSENT

Representative Joe McKenney
Kathie Bailey
Betty Curry
Erin Lutts

Linda Twitchell
Tony Rudbach
Mark Sansaver
Paul Tuss

DEPARTMENT STAFF PRESENT

Susan Jensen, SBDC Administrative Officer
Gary Morehouse, Business Resource Division
Quinn Ness, Business Resource Division
Andy Poole, Deputy Director
Janice Wannebo, MicroBusiness Finance Program Manager

PUBLIC

Gloria O'Rourke, MEDA Representative
Bob Vanek, Loan Officer, Gateway Economic Development Corporation
Michelle Johnston, District Director, Small Business Administration Montana District Office

Chairman Evan Barrett called the meeting to order at 9:07 a.m. Introductions of council members and public followed. A quorum of the council was present.

Janice Wannebo explained the reimbursement to members that use their personal car to travel to this meeting was decreased to 44.5¢ per gallon effective January 1, 2006. Members were also reminded they are allowed up to \$64 per night for lodging in Helena to attend these meetings.

MINUTES

A draft of the November 10, 2005 Economic Development Advisory Council minutes was mailed to all Council members before this meeting. Evan Barrett asked the council if anyone had changes to the draft minutes? With no changes from the council members, Senator Jerry Black **MOVED** to approve the minutes as submitted. Representative Dan Villa **SECONDS** the motion. **MOTION PASSED UNANIMOUSLY.**

ECONOMIC STATUS OF MONTANA

Evan Barrett, Chief Business Development Officer with the Governor's Office of Economic Opportunity, updated the Council on the status of activities around the state. Forbes magazine lists Montana as:

- The 4th least expensive place to do business;
- The 12th lowest state and local tax burden;
- The 9th most business friendly tax structure in the country;
- Current unemployment at 3.3%;
- Still 3rd in the nation for multiple paychecks per person;
- The fifth fastest growing economy in the nation as measured by state gross products. Considering the dynamics inside the "boot" economy, as opposed to the area outside, clearly we are the fifth fastest overall, but there are pockets of prosperity particularly in the oil belt (near Sidney and Baker). The commodity markets are being kind to Montana's economy right now.

Barrett explained that the Schweitzer administration is placing emphasis on energy development (bio-fuels, coal gasification, ethanol, etc.) especially outside the western "boot" to create growth in these slow areas. Three projects currently underway are:

1. The Bull Mountain Mine near Roundup recently approached the state for modification of their permit to allow them to do a "coal to liquids" facility at roughly 20 thousand barrels per day. The Governor's Office has been working on this project for approximately one year and should see significant economic growth for the area.
2. The Hard Rock Mining Water rules and regulations may be rejected by the Board of Environmental Review which could close some mines down while making it impossible for other mines to open. This administration feels the remedy is proper bonding for the reclamation as long as it has to be continued.
3. The mercury ruling hearings are scheduled in Great Falls and Billings at the beginning of June 2006 and Barrett recommends that constituents provide their opinions at one of the hearings or submit their comments in writing. Barrett strongly feels the Board of Environmental Review will adopt a rule allowing Montana to continue to have high standards on mercury control and at same time have it be part of the national trade mechanism to keep growth in Montana. Senator Mangan asked if Governor's Office is proposing a certain ruling on the mercury issue? Barrett believes the Department of Environmental Quality (DEQ) will propose a position that the Governor's office will be compatible with. Part of changing the whole "modus operandi" of the state and one of the challenges Montana has is "permitting." The Governor's Office is charting five areas of policy concern: workforce, technology, infrastructure, recruitment and permitting/regulatory. The current permitting process is not inappropriate in terms of their purpose but there are some extensive timeframes involved and the practice of resubmitting is cumbersome and may take years. As the administration sees permitting problems emerge, they will try to identify a remedy (legislative or administrative) that will shorten the timeframes. They are currently

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working with the Department of Environmental Quality (DEQ) now to allow the bigger projects to use the EIS model where they can allot money to hire 2-3 people to work inside DEQ on a contract basis to increase the staff during high levels of activity. Growth in eastern Montana is important but at the same time it has to be done correctly while also being expedient about permitting. Our goal is to have good standards that make companies accountable but at the same time be expedient on how permits are issued.

Jim Smitham asked if the Governor's staff could provide a one-page sheet covering the stats mentioned above. Barrett mentioned the unveiling of the Governor's Office website that would include the stats and projects mentioned above.

Council members also asked about the following:

- The **Business Expansion And Retention (BEAR)** Program - This Business Expansion and Retention program is a strategically-based survey that identifies a comprehensive profile of each company containing extensive numbers and data about the firm including workforce, sales, e-commerce and facility and equipment data. It also identifies the business owner's attitudes and opinions about the community, the local and state business climate, municipal services and future economic conditions and business plans. The Program will be rolled out as soon as the contract is signed. The state has purchased the software package, which will eventually be made available to every community in the state. The state will pay part and each participating community will pay a portion for use of the software.
- There have been delays in Hardin on the Rocky Mountain ethanol plant mainly due to lacking equity but this may change with the prospects of a new equity player that would give them enough to move forward and in fact they want to double its size. Centennial, MDU's power generation subsidiary, which has the power plant, has now expressed its own interest in ethanol and bio-diesel.
- Energy development/transmission lines in Montana – Is the administration going to make changes to the existing transmissions or corridors? Barrett indicated this is a very important element and they are working with various associations, Northern Lights and several other private companies and the federal agencies to ensure the coordination of all parties involved.

Director Preite began by thanking both the Governor and the Legislature for providing the tools, resources and financing necessary to achieve economic development in Montana. Director Preite updated the Council members on the various Department of Commerce programs recently appropriated by legislature:

- **The Workforce Training Program** – Director Preite acknowledged that the funds have not been fully expended but have been committed to projects. There have been more requests for these funds than there are funds available. The source of revenue is still a big concern.
- **The Big Sky Trust Fund** - Has enabled the Department of Commerce to provide some needed community capacity building funds at the local level with a number

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of requests pending from the local development organizations. The Department of Commerce has tried to reduce the individual costs to these regional organizations.

- **The Made in Montana Program** – received additional funding to restore the Made in Montana Show which was held in Great Falls on March 10 & 11, 2006.
- **The Main Street Program** – Created by the 2005 legislature and established in July 2005 this program assists communities in revitalizing their historic downtown business districts by providing technical expertise to establish and strengthen revitalization projects and address specific redevelopment issues in cities and towns. A limited number of communities are selected each year to participate in the program. The program is in the final stages of funding 3-4 major projects that have been developed.
- **The New Worker Training Program** – The guidelines outline the application requirements and if all necessary materials are submitted appropriately, the process is somewhat simple. This funding is for new workers only not existing workers. The Grant Review Committee has approved the following applications: 1) Printing For Less (Livingston) \$125,000; 2) Bacterin International (Belgrade) \$255,000 and 3) Integrated Solutions (Wolf Point) \$150,000. The maximum grant is \$5,000 for each new employee.

Director Preite briefed the Council members on the other programs the Department of Commerce administers such as:

- **Venture Capital Investment Fund** – still wrestling with this issue. Have requested funds to finance \$300,000 for the first year and \$75,000 for the next to implement but has not been agreed to yet. In addition, they are going to “ramp up” their efforts in the Angel field/groups and see where that leads by the end of the year and if legislation is needed at that point. Marchi mentioned that Montana’s filing fee for Angel Investors is three times higher than any other states. Barrett recommends that this issued be discussed during policy issues later on this agenda.
- **Big Sky/Big Screen Act** – Incentives for filming movies such as “Plumm Summer” – a \$4 million movie to be filmed in Montana are an important part of the film business and Montana’s economy. There might be two other possible movies by the same Director and Producer that may be filmed in Montana. Montana’s incentives pale in comparison to most other states and the Department of Commerce may have to return to the Legislature to request the full funding amount to allow Montana to compete in the film industry.

Director Preite explained the Department of Commerce has been trying to guide the local development organizations towards the Certified Regional Development Corporations (CRDCs) concept which is intended to bring multi-county organizations together, thereby reducing the costs for the organizations that administer the various economic development programs.

Senator Mangan asked how the state is addressing the increased funds that will be needed for the new programs? Barrett indicated that the Governor’s Office along with

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the Department of Commerce has made this a top priority and requested \$4 million from the Budget Office in job training money per year compared to \$1.3 million currently. Senator Mangan asked if there were any plans/programs for existing worker programs? The Department of Labor already administers those types of programs.

Senator Mangan hopes the Governor Office will request additional staff to handle the increased load at the Governor's Office. Barrett indicated that during the last legislative session the Governor's Office marketing plan budget was actually cut 40% leaving real gaps on what they can do for marketing. Staff load is also a big concern at the Governor's office and they would like to shift some of the responsibilities to other state agencies. It is not appropriate for the Governor's office to run programs. Barrett anticipates they will request additional funds.

Senator Black, District 14, reported that one issue still not in Montana's economic development "gun sites" is irrigation development and rehabilitation, which could be an important factor in revitalizing eastern and north central Montana to increase land values and yields for production, new employment, added businesses, etc. for Montana. Senator Black distributed a handout entitled "Montana Irrigation Development and Rehabilitation Program" explaining the possibilities. He hopes this Administration has allotted \$100,000 in the budget to complete an economic analysis of actually who does and to what extent they benefit from irrigation and to determine the value of irrigation to the entire Montana economy similar to what Alberta has accomplished. One idea might be to create the infrastructure needed to bring water to the farms, possibly via a state cost-share funding with the state. Barrett indicated it is currently under review now and we are trying to collect the facts, determine what has been done under previous initiatives, inventory the maintenance issues with existing water projects and the costs involved.

CERTIFIED REGIONAL DEVELOPMENT CORPORATIONS

Quinn Ness distributed and reviewed the Certified Regional Development Corporation (CRDC) Grant Funding Distribution for State Fiscal Year 2006 handout with the Council. A breakdown of the money follows:

- Base Funds (Part A) - each MBDC receives \$25,000;
- Formula Funds (Part B) is based on the criteria under Section 3 of the Statute, which looks at the geographic area served, number of communities, the population served. This year's total is \$60,000;
- Discretionary Funds (Part C) - the Department receives discretionary proposals from each CRDC annually. These funds are at the discretion of the Department and are made by a review committee comprised of the Director, Deputy Director, and the Assistant Administrator, Business Resources Division. This year's total is \$65,000;
- \$425,000 is awarded annually.

Ness mentioned that previously the Council recommended setting aside funding to possibly fund a 12th CRDC. Missoula/Ravalli are currently working on trying to form a CRDC and they have until June 1, 2006 to submit an eligible application otherwise the

funds will be redistributed to the current CRDCs; possibly under the discretionary proposals. Marchi requested that a copy of each CRDC's work plans/reports be provided for interested Council members. Outcomes such as jobs and wages are also being tracked. Gloria O'Rourke with the Montana Economic Developer's Association (MEDA) has a contract with the Department to gather these outcomes. O'Rourke did indicate she has compiled a one sheet report that highlights certain areas. The appropriation for this program has been extended until 2010. Barrett indicated the current administration believes in the regional development structure and would like to eliminate the sunset for the CRDC program in 2010.

TREASURE COMMUNITIES PROGRAM

This program was previously called Certified Communities. During the 2003 Legislative session, HB76 established the Certified Regional Development Corporations (CRDCs) and Treasure Communities program. A lot of questions remain about this program and what the Legislature intended for this program. The Department of Commerce has stumbled with implementing this and we need to either "officially" form the Program having the CRDC administer it or possibly "strike" the language in the statute pertaining to Treasure Communities. During the last EDAC meeting a subcommittee was formed comprised of Sheila Hogan, Paul Tuss and Elaina Zempel. The subcommittee's recommendation is to strike the language even though some members were opposed to striking the language. Ness would like to open this for general discuss on how do we move forward with the Treasure Community Program. Some members are concerned that striking the language might be altering legislative intent.

Barrett indicated the language was put in because of flexibility and capability to have community identity and recognition of the local effort. This council does not have the authority to strike the language but can recommend to the Legislature to strike the language. The administration will take into consideration the Council's comments and possibly have MEDA distribute the question to the economic development organizations to receive more input. Poole indicated that the Department of Commerce has polled the CRDCs regarding how to construct this program so it will work for them. For the most part, the CRDCs did not think it was a beneficial tool for the regions and that it would create an expectation on behalf of the Treasure Communities to share in program funding. This has been discussed for at least two years now, approached this Council for a recommendation/direction and no one has decided either way. We are at the point now, that we either construct the program to get off the ground to the best of our ability or take to the Legislature requesting striking the language that references Treasure Communities. Poole stressed that regional economic development does not work unless you have local organizations in each community that work on economic development.

Senator Mangan suggests that the Department of Commerce begin work on internal procedures of how this might work and hope that someone next session puts the issue in front of the Legislature. Simply eliminating the word "treasure" is basically all we would have to do leaving "community" and its definition. Senator Jerry Black thought the intention was to really update the name of the program and suggests just changing the name/signs to Treasure Communities. Senator Mangan asked if the Department of Commerce has the capacity internally to handle this whole other program? Ness

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explained it would be under the CRDC program. Poole believes all we have to do it define what it is and it is up the CRDCs to manage the program. Barrett thought it might be appropriate to have the Department of Commerce bring forth to our next meeting how they would proceed with the initial thinking/internal procedures.

Director Preite has some serious questions regarding the CRDC program and the distribution of funding and indicated that in the future the Department is going to have to take a closer look at the CRDC program and how effective they are to see if its intent has been met.

Senator Mangan **MOVES** to have the Department of Commerce initiate work on the implementation procedures for the Treasure State designation and provide a progress report at the next Economic Development Advisory Council meeting. Marchi **SECONDS** the motion. **MOTION PASSED.**

Ness shared a comment from a CRDC representative “now that we have the funding for the economic development districts maybe we should start looking more and more at the CRDC program as more of a state matching program or more of a direct sister-program to the Economic Development District Program (EDA) by adopting all of their reporting requirements.”

MICROBUSINESS FINANCE PROGRAM

Ness briefed the Council on the current status of MicroBusiness Finance Program as he distributed the MicroBusiness Development Corporations (MBDCs) report for quarter ending 3/31/06. To date, the MBDC's have achieved the following:

- 886 micro-loans totaling \$15,253,801 have been approved since the program began in 1991
- 539 loans have repaid a total of \$8,356,258
- \$17,216 average loan size
- A total of 1066 jobs have been created and 815 jobs have been retained as a result of these loans

Marchi was curious if the data for the North American Industry Classifications Systems (NAICS) codes is collected by the program. Wannebo acknowledged that the NAICS were collected by the state up to 1998 and believes the MBDCs still collect the codes on each loan they approve. Ness said the program does not collect individual data on each micro-loan, but this is something the department is going to include in it's internal review of the program's reporting requirements.

Ness distributed a presentation entitled Economic Development Advisory Council MicroBusiness Finance Program, May 10, 2006 and referenced the last two pages showing the Micro Loan Receivables 1999-2006 for the Active Lending MBDCs (both in table and graph form) which sets the stage for the focus of the policy discussion. The MicroBusiness Finance Program's focus is to find policy solutions that will increase the amount of funds that are lent to the certified MBDCs. While Gateway Economic Development Corporation (Helena) and Great Northern Development Corporation (Wolf

Point) have increased their micro-loan receivables in recent years, Bear Paw Development Corporation (Havre), Headwater's RC&D Area, Inc. (Butte) and Montana Community Development Corporation (Missoula) have experienced a decrease in their micro-loans receivables. Ness referenced the MBDC map showing the areas that are currently being served by the state MicroBusiness Finance Program and then the unserved areas where there is not a local organization designated to serve that specific region. Ness also pointed out the data gathered on the credit card industry and the amount of micro-business loans (i.e. <\$100k) they have lent from 2001-2003 (source: Community Reinvestment Act, Federal Reserve System) at the beginning of the presentation material. The data shows that Montana-based banks have decreased their micro-lending by 6.9% while major credit card companies (i.e. American Express, Citigroup, MBNA & Advanta) have increased their micro-lending by 39%. Anecdotal evidence suggests that for the smaller loans in Montana and across the nation, credit card companies have entered this market and are taking a larger and larger share. Ness also collected data on commercial loan interest rates (prime rate) trends from 1991-2006 and its affect on the Micro Finance Program showing that the prime interest rate started to increase beginning in 2005. Ness pointed out another tables showing the Consumer Credit Interest Rates 1994-2005 and the various rates offered to consumers (i.e. car, personal, credit cards loans).

Barrett acknowledged there are two interest rates that are of importance: 1) the interest rate charged to the borrowers; and 2) the interest rate the Department of Commerce charges to the MBDC organization. Barrett wondered if the program is working since the state is not covered. He acknowledged that one of the requirements of the CRDC organizations is to have a micro-business program yet the program is not attractive enough for new organizations and wonders if this program should be changed to a grant program instead of a loan program. And if it was changed to a grant program, would an organization like Southeastern Development Corporation be interested in lending state micro funds again? Atchison replied "yes". Since the funds are already out there and no one is counting on "a penny of it from the coal trust fund perspective" maybe it should be turned into a grant that went into the Department of Commerce for operations. Ness explained that several items are funded from the interest paid to the Department by the MBDCs, such as the management of the program, expenses related to the Economic Development Advisory Council meetings and the training and technical assistance grants to the MBDCs. There have been recent structural changes in the program that allows the program to capture the idle funds (loan pool) interest earnings to help support the administration of this program thereby allowing the Department to consider lowering the interest rate to the MBDCs by a half percent (.5%) to 2.25% instead of 2.75%. However, Ness indicated there are larger structural issues that were discussed by the Policy Subcommittee which follows:

Ness distributed a handout entitled "Policy Recommendations - Economic Development Advisory Council - MBDC Policy Subcommittee" dated May 5, 2006. Potential organizations that might be interested in lending the state's micro-loan funds do not apply to become a certified MBDC due mainly to the high risk associated with the micro-loans with a low rate of return. The Policy Subcommittee with the Department's assistance surveyed the actively-lending MBDCs to determine what issues should be

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changed to attract new organizations to become MicroBusiness Development Corporations (MBDCs).

Listed below are the MBDC's survey questions and their responses:

- 1) Do you believe the MBDC's cash match of \$1 of local money for every \$6 of state money should be changed? Yes=1; No=4
Would your organization lend more money if the match were changed? No=2; No comment=3
- 2) Do you believe the development loan interest rate of 2.75% should be changed? Yes=5; No=0
Would you loan more micro-loan money if the rate were reduced? Yes=1; No=4
- 3) Do you believe the statutory restrictions should be changed or removed? Yes=4; No=1
If statutory changes were made, would you lend more money? Yes=4; No=1
- 4) Please provide a reasonable annual budget for a full-time Revolving Loan Fund Manager (personnel, operating budget and training) within your organization. Answers ranged from \$57,000 - \$100,000.
What percent of a full-time RLF manager's time is required to manage the MBDC program? Answers ranged from 25%-75% depending on the number of loans.
- 5) Does your umbrella organization subsidize the operation of the MBDC loan fund? Yes=5; No=0
If yes, what is the subsidy amount annually? Answers ranged from \$10,000-\$50,000.
- 6) What is a reasonable annual budget to provide a technical assistance provider/manager (personnel, operating budget and training) within your organization? Answers ranged from \$75,000 - \$100,00.
- 7) How do you currently market the MBDC program? Answers: brochures, newspaper, radio, in-house training, word of mouth, partnership with bankers)
- 8) Does your organization manage other micro-loan funds? (i.e. SBA micro-loan, etc.) Yes=2; No=3
If yes, please list the sources of the other micro-loan funds: CDBG, USDA-RD, Board of Investments (BOI), SBA Micro-loan, and private investors.

Following discussion on the above issues, the full Council voted on each issue as follows:

Ness noted that this Council's recommendations are subject to the Department of Commerce Director's final approval.

NOTE: Council Member Sheila Hogan has left the meeting at this time for another commitment; therefore there are 10 Council Members present, maintaining a quorum.

Development Loan Interest Rate Reduction – The policy subcommittee recommends that the Department should reduce the Development Loan interest rate charged to the MBDC's from 2.75% to 2.25% for SFY 2007. Elaina Zempel **MOVED** to adopt the subcommittee's recommendation. Jim Smitham **SECONDS** the motion. **Vote: Favor = 6; Opposed = 1; Abstained = 3; MOTION PASSED.**

Liz Marchi asked if the interest rate could be lowered even further to 2.0%? Ness indicated the program would have to reduce or eliminate some of the program expenses (i.e. \$10,000 in training grants and \$25,000 in technical assistance grants to the MBDCs) which were specific Legislative Audit findings as a way to try to develop capacity in the MBDCs to manage the program's professionally. The subcommittee felt it was important to continue with those expenditures. Marchi believes there are other sources of funding for the training and if we could reduce the interest rate and repackage it as a side-by-side entrepreneurial development tool.

Liz Marchi **MOVED** to reduce the interest rate even further to 2.0%. Jim Smitham **SECONDS** the motion. Ness explained the program's budget projections are dependent on \$4 million loaned out to the MBDCs. The program earns more money in the STIP (State Investment Pool) currently at 4.5% verses 2.75% paid by the MBDCs. If the Department loans money to the MBDCs at 2% with a total of \$4 million lent out, that totals \$80,000 that will just cover the administration of the program (1 FTE, personnel budget and operating expenses). The training funds in addition to the Economic Development Advisory Council meetings expenses (\$2,500 per meeting) and the technical assistance grants would have to be obtained elsewhere. **Vote: Favor = 5; Opposed = 3. There was not a quorum present. A quorum is defined as a "majority of the membership". The Economic Development Advisory Council has 19 members; a majority of 10 must be present for business to be legally transacted. Only 8 Council members were present to vote on this issue; "Therefore in the absence of a quorum, any business transacted is null and void". (Robert's Rule's)**

MicroBusiness Definitions: The policy subcommittee recommends developing legislation that would increase the maximum loan amount from \$35,000 to \$50,000 and increase the gross annual revenue requirement from \$500,000 to \$750,000. Language should be added that allows these amounts to be indexed for inflation (CPI). The subcommittee would like the full Council to discuss the pros and cons of changing the \$500,000 annual gross revenue restriction prior to their recommendation.

Senator Jeff Mangan **MOVED** to adopt the subcommittee's recommendation to increase the limits stated including language allowing the numbers to be indexed with inflation. Jim Smitham **SECONDS** the motion.

Modified Motion: Steve Holland then **MOVED** to also increase the number of employees from 10 or fewer employees up to 20 or fewer employees in conjunction with increasing the limits as stated in the above motion. Liz Marchi **SECONDS** the modified motion. Council discussion ensued regarding increasing the \$500,000 and \$750,000 limits to include language to allow increases with inflation. Barrett wants to make sure everyone understand the "genesis" of the MicroBusiness Finance Program and the fact that businesses with 20 employees and a \$1 million in revenue have other places to go for their funding. The early intent of the program was to service particularly in rural areas, the "mom and pop" businesses. Barrett asked Atchison what the market is for these lower limits of the program and wondered if increasing the above limits would

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dilute a “niche market”? Representative Dan Villa also agreed that this could possibly eliminate the inclusive nature of this program.

Director Preite stressed the importance of assisting the organizations that who administer this program for the Department of Commerce. This program should not be a losing proposition for the host organizations that administer it. The goal should be to raise the equity in the MBDC (especially the newer MBDC organizations) to the point where they can handle the bigger loans. Ness acknowledged that the #1 issue with providing statewide coverage is the organizations that could become an MBDC don't have the capacity to absorb the losses and/or they don't have the ability to subsidize the program from other resources. Michelle Johnston, SBA Executive Director, reported the federal SBA Micro-loan Program is being eliminated. However, the Business Loan Express and Innovative Bank loans up to \$50,000 are still available through the SBA District Office.

Barrett indicated at this point, we have a motion by this Council to increase the maximum loan amount from \$35,000 to \$50,000 to be indexed with inflation; increase the number of employees from 10 or fewer to 20 or fewer; and increase the annual gross revenue from \$500,000 to \$750,000 to be indexed with inflation. If the motion fails, it reverts back to the 10 or fewer employees, maximum loan amount of \$50,000 and annual gross revenue of \$750,000 motion. **Vote: Favor = 6; Opposed = 4; MOTION PASSED.**

Reporting Options: The policy subcommittee's recommendation is to have Program Staff develop new MBDC reporting options and present these options to the subcommittee. The new reporting requirements could generate the data necessary to determine the financial viability of the program on a case-by-case basis.

Ness indicated that an MBDC submits a budget at the time they either become certified or re-certified as an MBDC. They are not required to submit an annual budget. The Department will request from the MBDC a budget projection for the current year and annually thereafter that contains MBDC expense data that we currently do not collect.

Senator Jeff Mangan **MOVED** to adopt the subcommittee's recommendation to have Program Staff develop reporting criteria to determine financial stability of the MBDC program within the host organization in addition to the quarterly data they already collect from the MBDCs. Jim Atchison **SECONDS** the motion. Barrett asked Atchison if the added reporting is problematic for a Practitioner? Atchison indicated there would be minimal impact. **Vote: Favor = 10; Opposed = 0. MOTION PASSED.**

Senator Jeff Mangan **MOVED** for this Council to reconsider their vote of reducing the MBDC's quarterly interest rate down to 2%. The majority of the Council members were in favor of continued discussion while two were opposed to discussing this further. Senator Mangan wanted to address the technical assistance aspect. Having \$25,000 mandated for technical assistance to the MBDCs probably isn't adequate technical assistance for the micro-loans. Reducing from 2.25% down to 2% will allow the provider to bring in more money. In the motion we just passed, they can probably put more money in then they are getting on the \$25,000 technical assistance grant.

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Senator Mangan believes the motion should include language that directs the MBDC organization to use the quarterly cost savings between 2.25% and 2% for technical assistance. The MBDC survey indicated the MBDCs would prefer to have training & technical assistance grants. Liz Marchi **SECONDS** the motion for the reduction of the development loan interest rate to 2.00% from 2.25%. **Vote: Favor = 5; Opposed = 5; MOTION FAILED.**

The Council directed staff to conduct a survey asking the regional development organizations in the un-served MBDC areas if they would be interested in lending state microbusiness funds. Senator Mangan feels we need to get more money in this program that is directed towards technical assistance maybe just by increasing the program's spending authority since the funds are already there.

Poole indicated the Department of Commerce has new tools that support local and regional economic development. One program is the Certified Regional Development Program that has funds that can be used to assist with revolving loan fund (RLF) management. Another source is the Big Sky Trust Fund which was recently passed during the last Legislature that allows 25% of the funding to be used towards capacity building.

WORKFORCE INNOVATION IN REGIONAL ECONOMIC DEVELOPMENT (WIRED) PROGRAM

Gary Morehouse, Assistant Division Administrator for the Business Resources Division, overseeing the Workforce Innovation in Regional Economic Development (WIRED) Program explained that back in December 2005/January 2006 the Governor's Office applied for a WIRED grant, which is a federal program administered by the U.S. Department of Labor. In the application there was a component for \$3.5 million allotted to the Department of Commerce to manage the grant program for bio-product businesses. Our application indicated the WIRED funds would be used for customized workforce job training, equipment, bio-product inventory development, and a variety of other uses which was approved and incorporated into the contract between the U.S. Department of Labor and the Montana Department of Labor. In February 2006, this was presented to everyone involved and on March 3, 2006 we presented it in writing which included guidelines. Today, May 10, 2006, the Department of Commerce finally received feedback stating that most of what Montana has proposed is ineligible even though it is in the signed contract with them. We have been approved to proceed with core institutionalized job training but otherwise we do not have a lot of flexibility. As of today, the Department of Commerce has to reconsider projects that may have initially been eligible to receive the WIRED funds. The U.S. Department of Labor has changed the regulations by referring to different citations on a weekly basis and their guidance has been conflicting from case to case. The Department of Commerce has already planned a "roll out" event in Billings next week with hundreds of people attending expecting us to form partnerships with companies to access these funds. Barrett indicated that the Department of Commerce and Department of Labor will find a way to make it work under the federal constraints but it will be different than initially planned.

COUNCIL ECONOMIC DEVELOPMENT POLICY DISCUSSIONS

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Barrett indicated that one of the responsibilities of this Council listed under MCA 2-15-1820 (6) (c) advise the governor and the Department on significant matters concerning economic development in Montana.

Montana's Non-compete Clause

Barrett indicated that one of the issues discussed during the 2006 Montana Economic Outlook Seminars hosted by the Bureau of Business & Economic Research (BBER) is Montana's Non-compete Clause. The Montana Statute states any contract which restrains one from exercising a lawful business or trade is unenforceable which seems to be a problem for some companies. The Montana Supreme Court case law says an employee non-compete agreement may be acceptable if it passes a test of reasonableness. This is problematic for some types of companies that develop products. This type of language leaves Montana with legal uncertainty and companies considering moving their businesses to Montana may reconsider. Barrett would like this Council to assist in finding a resolution to this problem and determine if this can be fixed.

Barrett acknowledged that he was recently appointed to the BBER Advisory Council to increase the communications between the Governor's Office and the BBER and take advantage of their economic expertise. Paul Polzin, BBER Director, will meet with Governor's office to discuss why they think our economy is where it is to give us a base understanding. Sheila Hogan encouraged Council members to attend and be involved in the BBER presentations that will be held throughout Montana in the coming weeks.

Montana's Angel Investor Filing Fees

Marchi again mentioned that Montana's filing fee for Angel Investors is three times higher than any other states (approximately \$1,000). Research needs to be conducted to determine why the filing fee for Angel Investors is so high. Marchi would like this Council to take the lead on the investigation and have the Department of Commerce draft a letter, on behalf of this Council, asking the Securities Department to determine if and why the filing is so high. Marchi will provide Andy Poole with a document that outlines the filing fees charged by other states.

Program Thresholds/Requirements

Jim Smitham, Butte Local Development Corporation, indicated that working with the various programs causes confusion when they each have different thresholds, definitions and guidelines requirements not only by the practitioner but also by the clients. Some consistency or maybe assigning a working group to determine a universal definition of a full-time job and salary threshold, benefits, hours for a full-time job. Parameters need to be better defined. A uniform, universal definition would be beneficial.

Poole distributed copies of both the Big Sky Trust Fund and the Workforce Training Program that does provide definitions on eligible jobs and full-time jobs.

Tax Increments/Credits

Barrett indicated a group is working to come up with some revisions in the statutes related to tax increment districts breaking them into urban renewal and economic

development districts which can have multiple uses thereby creating two different classes. Barrett mentioned a Tax Increment Financing workshop in Helena on May 25, 2006. They are also seriously considering taking the 95 state education mills and exempting them from the tax increment similar to the 6 mill university levy which is also exempt. This Governor's office objective is to accomplish certain things that might help this tool work better and to keep this effective tool alive and functioning.

New & Expanded Business Tax Credit (Tax Abatement) – Marchi indicated the state delegates authority to counties. She believes the county's interpretation varies widely across the state on what is an allowable new and expanded tax credits. The statute states that manufacturing is allowed (only 7% of Montanan's are employed in manufacturing). Barrett indicated that SB19 (last year) redefined the whole thing which passed the Senate and was defeated in the House, will be reintroduced during the next Legislative session. Marchi asked if the statute could elaborate what can be done and what can not so it is not left to interpretation. Currently there are two statutes: the locally applied one and the state applied one. Barrett indicated the state's version does need to be fixed and the locally applied will be when SB19 is passed during the next session. The other issue still needs to be reviewed. Jim Smitham prefers the local flexibility.

Workforce Grant

Sheila Hogan indicated that in the Workforce Grant application, the private sector grant refers to the impact to the region, state and the locality, but does not mention an effort to hire people locally. Barrett believes there is a uniform desire across Montana to hire local people in as much as there is an available workforce that is qualified. Specialized positions should not be restricted when it comes to companies fulfilling their employment needs.

Big Sky Trust Fund Requirements

Representative Dan Villa asked what decision has been made on the 75% job creation and 25% capacity building requirements in the Big Sky Trust Fund Guidelines. Even though Barrett raised the issue of 50% for job creation and 50% capacity building he walked into a "brick wall" and is now inclined to say that it should not be changed.

SB133 – Montana Equity Capital Investment Act

Marchi asked if there has been any movement on the appointment of the board. SB133 is a bill to attract out-of-state venture investment funds interested in providing equity capital and near-equity capital to Montana entrepreneurs and economic innovators in Montana. Through investment incentives, the state seeks to nourish the creation of a private seed and venture capital industry in Montana to fund academic, technological, and innovative startup companies and other companies that are expanding or restructuring. A further purpose is to encourage lead local investors, which out-of-state venture investors can partner, in a way that strengthens the state's economy and builds a significant, permanent capital resource available to serve the needs of Montana businesses in a way that minimizes the use of state funds or tax credits. Barrett's instinct is to fund it and in the meantime accomplish work on the private side to get the people and angel investors interested.

SMALL BUSINESS DEVELOPMENT CENTERS (SBDCs)

Susan Jensen, Associate Director for the SBDC Program, distributed their 2005 Annual Report outlining the Program's accomplishments. This report also highlights three of their SBDC regional offices (Missoula, Havre and Colstrip) along with outlining the services that can be obtained through the SBDC network. Jensen reported that the state SBDC office will be issuing a Request For Proposal (RFP) shortly after Labor Day that will close October 17, 2006. The RFP solicits applications for organizations interested in providing technical assistance through individual counseling and training for existing businesses and entrepreneurs and is done every seven (7) years. They are working closely with the Department of Administration on the vendor list. New areas covered in the RFP are a direct result of a recent Legislative audit of the program.

Jensen also explained that SBA provides \$500,000 to be divided by the SBDC sub-centers in Montana, the Department of Commerce provides \$125,000 to be divided amongst the SBDC sub-centers and CDBG provides \$750 for training and/or travel for professional development for each sub-center. These funds mainly cover the cost of the SBDC Counselor and the host organizations are required to provide the cash match and in-kind services. Michelle Johnston, SBA, acknowledged that Senator Burns is asking to increase the Montana SBA allotment from \$500,000 to \$650,000. Poole added that the recent Legislative Audit actually found value in the SBDC program and found it was doing a good job which is very encouraging. Poole also indicated that part of the Department of Commerce's budget request includes an additional \$220,000 for the SBDCs. Our intent is to align the SBDCs with the CRDCs but it does not necessarily mean we need to create more hosts SBDC organizations. We have not determined the best model yet, but there could be partnerships where the existing SBDC program is subcontracting services into a regional area with the idea of providing better statewide coverage. One audit findings indicated that we were not delivering as much service to rural Montana as we need to. Atchison indicated Montana's territory is the biggest geographical SBDC in the lower 48 states and there is a lot of windshield time for the Counselors. Great Falls recently hired a new SBDC Counselor who will begin May 15th and Butte who recently hired their SBDC Counselor will begin on May 22nd. Havre is still in their selection process.

Jensen also reported the state of Montana SBDC program has been selected to participate in a High Performance Leadership Management training along with nine (9) other states at a cost of \$3,000. Our objective is to assist the SBDC sub-centers with directing their time more effectively. This training is required for SBDC accreditation.

Marchi reported that in North Carolina they have Small Business Technology Development Centers (SBTDCs) along with the SBDCs and wondered if that is an aspect Montana should be investigating and begin with one SBTDC. Poole reported that both the Bozeman and Missoula SBDC received an earmark from Congress specifically for creating technology-based SBDCs and they are working on this currently.

PUBLIC COMMENT

Poole asked if any member of the public would like to speak at this time. No one from the public provided comments.

NEXT MEETING

Janice Wannebo, Administrative Assistant to this Council, will poll each Council member on a date that a quorum of this Council could convene possibly in October 2006.

Wannebo pointed out that five (5) Council member's terms will be expiring July 23, 2006 which are Jim Atchison, Liz Marchi, Steve Holland, Erin Lutts and Mark Sansaver. Director Preite has been informed of the expiring terms and will work closely with the Department and the Governor on reappointments and/or new appointments for those terms that will be expiring. The Department will keep the Council members informed on this process.

ADJOURNMENT

Jim Smitham **MOVED** to adjourn the meeting at 2:27 p.m. Liz Marchi **SECONDS** the motion. Motion passes unanimously.



Respectfully submitted